Appendix 1: Materials used by Messrs. Fallick and Faberman, and Ms. Şahin
Material for

FOMC Briefing on Structural Unemployment

Bruce Fallick, Jason Faberman, and Aysegul Sahin

January 25, 2011
Categories of Unemployment

- Structural or frictional unemployment reflects difficulties in matching available workers to available jobs.
  - Demographics.
  - The technology of job search and worker screening.
  - Imbalances between the characteristics or locations of potential workers and vacant jobs.
- Cyclical unemployment is due to a shortfall in aggregate economic activity.
- Inflation is most sensitive to cyclical unemployment.
- The line between these categories is often blurry.

Payroll Employment

Dispersion in Major Industry Employment Change

Percent of Mortgages with Negative Equity

Permanent Job Losers

Note: Negative equity percentage likely understated because of incomplete data on junior liens.

Note: Rate includes job losers not on layoff, unemployed less than five weeks. Stock includes all job losers not on layoff.
Exhibit 2
The Beveridge Curve

Using Staff Composite Help Wanted Index
1973:Q4 to 2010:Q4

Help wanted index divided by labor force

Using JOLTS Job Openings
2001:Q1 to 2010:Q4

Total nonfarm job openings divided by labor force

Issues in Interpretation

- Deviation is not a measure of an increase in structural unemployment.
- The shape of the curve.
- Increases in layoffs that occur during recessions.
- Counter-clockwise loops.
Exhibit 3
Models Informing Tealbook Assumptions

Job Matching

![Job Matching Graph]

Note. Actual and estimated monthly flow rates from unemployment to employment. Estimated values are from a regression of the U-E flow rates on the log of the ratio of vacancies to unemployment.

An Unobserved Components Model

- The model treats the NAIRU and other trends as unobserved components.
- Related through such macroeconomic relationships as the Phillips Curve and Okun’s Law.
- Variant allows for the possibility that the Phillips curve flattened in the mid-1980s.
- Also allows the NAIRU to be more variable than in previous episodes.

Contribution of Matching Efficiency to the Unemployment Rate

![Contribution of Matching Efficiency Graph]

Note. Average contribution during 1980-2007 is normalized to zero.

Model NAIRU

![Model NAIRU Graph]

Tealbook NAIRU

![Tealbook NAIRU Graph]

*Staff estimate.
**Includes emergency unemployment compensation and state-federal extended benefits programs.

Duration of Unemployment

![Duration of Unemployment Graph]

*Unemployed for more than 26 weeks.
Exhibit 4
Theoretical Motivation

The Matching Function

- $H_t =$ total hires (or matches)
- $V_t =$ total vacancies
- $U_t =$ total unemployment
- $\mu_t =$ “matching efficiency” parameter

$$H_t = \mu_t V_t^{1-\alpha} U_t^\alpha$$

Matching Efficiency

- Lower efficiency implies fewer hires for a given $U_t, V_t$
- Decline in efficiency shifts Beveridge curve out
- Efficiency parameter can change because of structural or cyclical factors (i.e., any changes not captured by $U_t$ or $V_t$)

Shifts and Movements in the Beveridge Curve

Things that shift the Beveridge curve
- Changes in matching efficiency
- Changes in layoff, separation rates
- “Looping” to new equilibrium

Things that affect measured matching efficiency
- Mismatch
- Behavior of quitting workers
- Search efforts of workers, firms
Exhibit 5
Extended Unemployment Insurance Benefits

Unemployment Duration by Reason for Unemployment

Extended UI Benefits
- Job loser’s behavior: 
  + 0.8% pts to \( U_t \)
- Transitions out of unemployment: 
  + 0.9 to 1.7% pts to \( U_t \)
- Preferred estimate across studies: 
  about +0.8% pts to \( U_t \)

Note: Through October, 2010, three-month moving average. From Daly et al. (2011), using CPS data. Dashed vertical lines indicate effective dates for extensions of maximum UI duration.

Unemployment Transition Rates by Unemployment Duration

Transitions from Unemployment to Employment

Transitions from Unemployment to Out of the Labor Force

Note: From Fujita (2010), using CPS data.
Exhibit 6
Employer Recruiting Intensity

Recruiting Intensity per Vacancy over Time

Note: From Davis, Faberman, and Haltiwanger (2010), using JOLTS data. JOLTS data begin in December 2000. Scaled so that average value is equal to one over the sample period.

Actual vs. Counterfactual Unemployment Rate, Holding Recruiting Intensity Constant

Recruiting Intensity
- Low recruiting intensity accounts for 1.4% of \( U_t \)
- Rise could be structural or cyclical

Note: From Davis, Faberman, and Haltiwanger (2010), using JOLTS and CPS data.
Exhibit 7

General Measures of Mismatch

Unemployment Outflow Rates by Industry

Note: Elsby, Hobijn, Şahin (2010), CPS. Series 12-Month Moving Average.

Unemployment Rate of Recent College Graduates

Note: Aaronson, Barlevy, Mazumder (2011), CPS.
Exhibit 8
Skill Mismatch

Mismatch Indices by Industry

Actual and Counterfactual Unemployment (Industry)

Mismatch Indices by Occupation

Actual and Counterfactual Unemployment (Occupation)

Note: Şahin, Song, Topa, Violante (2010), JOLTS, CPS. Series 3-Month Moving Average.

Note: Şahin, Song, Topa, Violante (2010), The Conference Board Help Wanted OnLine Data Series, CPS. Series 3-Month Moving Average.
Exhibit 9
House Lock and Geographic Mismatch

Rates of Migration between States

Average Unemployment Duration by 12-Month Change in State-Level House Price

Note: Kaplan and Schulhofer-Wohl (2010), CPS.

Note: Foote and Ryan (2011), CPS, FHFA.
Exhibit 10

Long-term Unemployment and Hysteresis

Unemployment-to-Employment Outflow Rates by Unemployment Duration

Note: CPS. Series 12-Month Moving Average.

Unemployment Inflow and Outflow Rates by OECD Countries

Note: Elsby, Hobijn, Şahin (2009), OECD.
Exhibit 11
Summary

- The following factors have had a measurable effect on the unemployment rate during 2007-2010:

  o Extended unemployment insurance benefits: +0.4 to 1.7 percentage points (preferred estimate around +0.8 percentage point)
  o Decline in the recruiting intensity of firms: +1.4 percentage points
  o Skill mismatch across industries: +0.8 percentage point
  o Skill mismatch across occupations: +1.4 percentage points

  Note: These effects are not additive.

- The following factors have had no measurable effect on the unemployment rate during 2007-2010:
  o House lock
  o Geographic mismatch

- Problems facing the U.S. labor market are unlikely to be as severe as the European-style hysteresis problem of the 1980s.
### Board and Reserve Bank Staff Estimates

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<thead>
<tr>
<th></th>
<th>Tealbook</th>
<th>Boston</th>
<th>New York</th>
<th>Philadelphia</th>
<th>Cleveland</th>
<th>Richmond</th>
<th>Atlanta</th>
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<td>6.75</td>
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<td>7.9</td>
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<td>5.5</td>
<td>5.2</td>
<td>5.25</td>
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*St. Louis estimate is for 2013.

### Distribution of Estimates

- **Percent of labor force**
- **Estimated Increase**
  - **Percentage points**
  - **Pre-Crisis to Current**
Appendix 2: Materials used by Mr. Sack
Material for

**FOMC Presentation:**
*Financial Market Developments and Desk Operations*

Brian Sack

January 25, 2011
(1) Treasury Yields

Source: Bloomberg

(2) Implied Federal Funds Rate Path*

*Based on federal funds and eurodollar futures rates.
Source: Federal Reserve Bank of New York

(3) Cumulative Size of Asset Purchase Program

Source: Federal Reserve Bank of New York Policy Survey

(4) 10-Year Term Premium* (Kim-Wright Model)

*Based on zero coupon Treasury yield.
Source: Federal Reserve Board of Governors

(5) Breakeven Inflation Rates

Source: Federal Reserve Board of Governors

(6) Treasury Debt Outstanding

Source: Federal Reserve Board of Governors
(13) Treasury Purchases by Maturity

Source: Federal Reserve Bank of New York

(14) Average Bid Size for 10-Year Treasury Note

Source: BrokerTec

(15) Projected SOMA Reinvestments

Source: Federal Reserve Bank of New York

(16) Projected Size of Federal Reserve Securities Holdings*

*Values of end of year estimates.
Source: Federal Reserve Board of Governors, Federal Reserve Bank of New York Policy Survey

(17) Probability of Halting Reinvestments (Over 2 and 5 Year Horizons)

Source: Federal Reserve Bank of New York Policy Survey

(18) Probability of Asset Sales (Over 2 and 5 Year Horizons)

Source: Federal Reserve Bank of New York Policy Survey
**Class II FOMC – Restricted FR**

**Exhibit 4**

**19) Balance Sheet Path under Baseline Scenario**

![Graph](Image1)

Source: Staff memo to FOMC

**20) Interest Rate Path under Baseline Scenario**

![Graph](Image2)

Source: Staff memo to FOMC

**21) Net Portfolio Income under Baseline Scenario**

![Graph](Image3)

*Represents the average between the FRBNY and the Board.

Source: Staff memo to FOMC

**22) Treasury Remittances under Baseline Scenario**

![Graph](Image4)

Source: Staff memo to FOMC

**23) Effects of Higher Interest Rates on Treasury Remittances**

![Graph](Image5)

Source: Staff memo to FOMC

**24) Effects of Faster MBS Sales on Treasury Remittances**

![Graph](Image6)

Source: Staff memo to FOMC
Appendix 3: Materials used by Messrs. Reifschneider and Kamin, and Ms. Liang
Material for

Staff Presentation on the Economic Outlook

January 25-26, 2011
Recent Nonfinancial Indicators

Real Personal Consumption Expenditures
Billions of chained (2005) dollars

<table>
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<tr>
<th>Percent change, a.r.</th>
<th>2010:Q3</th>
<th>2010:Q4</th>
<th>2011:Q1</th>
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<td>Current</td>
<td>2.4</td>
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<td>3.1</td>
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<tr>
<td>Dec. TB</td>
<td>(2.0)</td>
<td>(2.4)</td>
<td>(2.7)</td>
</tr>
</tbody>
</table>

Note: December and 2010:Q4 are staff estimates.

Single-family Housing Starts and Sales
Millions of units, a.r.
Thousands of units, a.r.

- New and existing sales (left scale)*
- Starts (right scale)

Change in Private Payroll Employment
Thousands

Note: Three-month moving average.

Near-term GDP Projection
(Percent change, annual rate)

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<th></th>
<th>2010</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Q3</td>
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<td>Q4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Real GDP 2.6 3.8 3.6
2. (Dec. TB) (2.7) (2.5) (3.4)
3. PDFP 2.3 4.0 3.9
4. (Dec. TB) (2.6) (2.7) (3.5)

Consumer Prices
Twelve-month percent change

- Core CPI
- Core PCE
- Core market-based PCE

Note: December 2010 values for core PCE prices and core market-based PCE prices are staff estimates.
**Medium-term Outlook for Real Activity and Inflation**

**Real GDP**
- Four-quarter percent change
- Dec. TB
- Jan. TB

**Core PCE Prices**
- Four-quarter percent change
- Dec. TB

**Dispersion of SPF Forecasts**
- GDP growth over the next 4 quarters
- CPI inflation over the next 10 years

**Real Federal Funds Rate**

**Unemployment Effects of Asset Purchases**
- Original 2009 program
- Original program with reinvestment
- Current program

*Based on FRB/US simulations, assuming no offsetting changes in the medium-term path of the federal funds rate.*
Exhibit 3

The Pace of Recovery

Forces Shaping the Recovery

Supportive factors
- Capital demands
- Diminishing drag from wealth losses
- Increasing credit availability

Hindering factors
- Housing sector troubles
- Non-residential construction
- Fading impetus from fiscal policy

Capital Stocks

Four-quarter percent change

Direct Contribution of Wealth to Real PCE Growth

Four-quarter percent change

Decomposition of Cyclical Recoveries

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Current</th>
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<tbody>
<tr>
<td>Real GDP expansion*</td>
<td>9.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Selected contributions (p.p.):</td>
<td></td>
<td></td>
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<tr>
<td>Housing</td>
<td>1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Nonres. Structures</td>
<td>0.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>S&amp;L purchases</td>
<td>0.4</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

* Percent change in real GDP, eight quarters after the trough.

Fiscal Impetus

Four-quarter percent change

State and Local Tax Receipts

Four-quarter percent change
**Household Saving, Sentiment, and Credit Conditions**

### Personal Saving Rate
- History and TB staff projection
- Reduced-form model projection, starting in 1979:Q4

### Consumer Sentiment
2000:Q4 = 100

### Willingness to Make Consumer Loans
Diffusion Index

### Credit Card Solicitations
Mailings per household

### Measures of Household Debt Burden
- Quarterly
- Debt service ratio (right scale)
- Debt/DPI (left scale)

**Note:** Low-income, middle-income, and high-income households earn less than $45,000, between $45,000 and $100,000, and more than $100,000, respectively.

**Source:** Mintel.
**European Developments**

### Sovereign Bond Spreads*

*B Long-term yield spreads over German bunds.

Source: Bloomberg.

### Gross Sovereign and Bank Financing Needs*

* Sovereign is sum of projected fiscal deficit and sovereign bond redemptions. Bank is marketable debt only. Does not include potential costs of bank bailouts.

### Unit Labor Costs

* 2001:Q1 = 100

Source: Haver Analytics.

### Containing Contagion

- Backing Portugal and Spain will require €500+ billion, compared with currently available resources of €375-400 billion.

- Critical that back-stop capacity be expanded.

- Horizontal review of banks must:
  - be more credible than one last summer.
  - require more banks to raise capital.
  - be able to help recapitalize weak banks.
### Foreign Outlook

#### Real GDP*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011(^p)</th>
<th>2012(^p)</th>
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<tbody>
<tr>
<td><strong>1. Total Foreign</strong></td>
<td>5.6</td>
<td>2.1</td>
<td>3.0</td>
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<td><strong>2. June Tealbook</strong></td>
<td>4.6</td>
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<td>3.3</td>
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<td><strong>3. Emerging Market Economies</strong></td>
<td>8.1</td>
<td>2.5</td>
<td>5.0</td>
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<tr>
<td><strong>4. China</strong></td>
<td>9.7</td>
<td>9.6</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>5. Emerging Asia ex. China</strong></td>
<td>12.3</td>
<td>-1.1</td>
<td>4.9</td>
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<tr>
<td><strong>6. Latin America</strong></td>
<td>5.2</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>7. Advanced Foreign Economies</strong></td>
<td>3.6</td>
<td>1.7</td>
<td>1.3</td>
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<tr>
<td><strong>8. Euro Area</strong></td>
<td>2.7</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>9. United Kingdom</strong></td>
<td>2.9</td>
<td>2.9</td>
<td>-2.0</td>
</tr>
<tr>
<td><strong>10. Canada</strong></td>
<td>3.9</td>
<td>1.0</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>11. Japan</strong></td>
<td>4.9</td>
<td>4.5</td>
<td>-1.6</td>
</tr>
</tbody>
</table>

*GDP aggregates weighted by shares of U.S. merchandise exports. Table reflects January Tealbook updated for data.

### Industrial Production*

*Weighted by share of U.S. merchandise exports.

![Industrial Production Graph]

### Nominal Exports of Goods*

*Dollar value, weighted by share of U.S. merchandise exports.

![Nominal Exports of Goods Graph]

### Output Gaps

*Deviation from potential GDP.

![Output Gaps Graph]

### Policy Rates

![Policy Rates Graph]

### CPI Ex. Food and Energy*

*Staff estimates.

![CPI Ex. Food and Energy Graph]

### BBB Corporate Spreads

*Weekly.

![BBB Corporate Spreads Graph]
Asset Bubbles and Commodity Prices

Flows to EME Dedicated Funds*
Billions of U.S. dollars

- Monthly
- Bond funds
- Equity funds

* January 2011 flows are based on data through January 19th.

Real Exchange Rates Against the Dollar (USD/FC)
Jan. 2007 = 100

- Monthly
- Brazil
- China
- Emerging Markets
- Mexico
- Korea
- Foreign Appreciation


Property Prices
Jan. 2007 = 100

- Data are quarterly.
- Hong Kong
- China
- Singapore*

Corporate Debt Spreads*
Percent

- Emerging Asia
- Latin America


Policy Rates
Percent

- Brazil
- Mexico
- China*
- Korea

* Rate for China is the one-year lending rate.

Emerging Market CPI
12-month percent change

- Headline CPI
- Ex. food

Commodity Prices
Dollars per barrel

- Nonfuel index
- Oil import price

* Data are quarterly.

* January 2011 flows are based on data through January 19th.
U.S. Trade Outlook

Real Exports and Imports

Percent change, a.r.

-40 -30 -20 -10 0 10 20 30 40

2008 2009 2010 2011 2012

Real exports

Real imports

Imports and Industrial Production*

Change in import penetration (percentage points)**

Industrial production (percent change, a.r.)***

* 21 disaggregated manufacturing sectors.
** From 2009:Q2 to 2010:Q3.
***

Contribution of Net Exports to Real GDP Growth

Percentage points, a.r.

2009 2010 2011 2012

Real Core Exports and Imports*

Billions of chained (2005) dollars, a.r.

Exports

Imports

* Core exports exclude computers, semiconductors, and services.
Core imports also exclude petroleum and natural gas.

Broad Real Dollar

2008:Q1 = 100


Current Account Balance

Percent of GDP

Financial Market Developments

**Treasury and Corporate Rates**

- Daily
- 10-yr. Corporate BBB
- 10-yr. Treasury note

**Near- and Far-term Forward Spreads for BBB Bonds**

- Weekly
- Near-term
- Far-term

*Near-term forward spreads between years two and three. Far-term forward spreads between years nine and ten.

**S&P 500**

- Dec. 13, 2010 = 100

**Equity Risk Premium**

- Expected ten-year real equity return
- Expected real yield on ten-year Treasury

Source: Thomson Financial.

**Domestic Equity Mutual Fund Flows**

- Three-month moving average
- Percent of DPI


** Repo Market Haircuts**

- Weekly
- Speculative-grade corporate bonds
- Investment-grade corporate bonds

*Note: Data are for one-month median haircuts.
Source: Federal Reserve Bank of New York.
Financing Conditions

A-Rated Corporate Bond Spreads by Sector

Bank Spreads of Loan Rates Over Costs

Composite Index of Changes in Bank Credit Standards

Leveraged Loan and High-yield Bond Issuance

Consumer Credit

Total Debt Growth for Households and Nonfinancial Businesses
Real Estate Remains a Risk

CoreLogic House Price Index Level

Prices of Commercial Real Estate

Transition Rate to Delinquency for Residential Mortgages

Distressed Commercial and Residential Mortgages at Banks

Loan Loss Rates at Commercial Banks

(Percent of loans)

<table>
<thead>
<tr>
<th></th>
<th>CRE</th>
<th>RRE</th>
<th>Other</th>
<th>Total</th>
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<tr>
<td>2010*</td>
<td>2.3</td>
<td>2.2</td>
<td>3.7</td>
<td>2.8</td>
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<td>Average of 2011-2012*</td>
<td>3.0</td>
<td>2.2</td>
<td>3.3</td>
<td>2.8</td>
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Real Estate Risks to Banks

- House prices could fall more than expected.
- Exams of mortgage foreclosure practices reveal deficiencies.
- Estimates of mortgage putbacks are material for a few banks.
Financial Risk from European and Municipal Debt Developments

Spreads on 1- to 10-day Financial CP Issued in the U.S.

Peripheral Europe: Short-term Debt Outstanding and U.S. MMF Holdings

Banking System Credit Exposure to Peripheral Europe

Selected States CDS Five-year Spreads

Risks

- State and local governments pay higher rates.
- Could lose access to VRDOs.
  - VRDOs are long-term bonds with interest rates that reset frequently.
- Bank credit losses from loans and securities likely modest.
- Balance sheets pressured if investors putback VRDOs.
Appendix 4: Materials used by Ms. Zickler
Material for Briefing on
FOMC Participants’ Economic Projections

Joyce Zickler
January 25, 2011
Exhibit 1. Central tendencies and ranges of economic projections, 2011–13 and over the longer run

### Change in Real GDP

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<th>Year</th>
<th>Actual</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<th>2011</th>
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### Unemployment Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2009</td>
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<td>2010</td>
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<td></td>
<td></td>
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<td></td>
<td>5</td>
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</table>

### PCE Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
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<tr>
<td>2007</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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</table>

### Core PCE Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2007</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td>2</td>
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<tr>
<td>2008</td>
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<td></td>
<td></td>
<td></td>
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</tbody>
</table>
Exhibit 2. Economic projections for 2011-2013 and over the longer run (percent)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Longer run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in real GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Tendency</td>
<td>3.4 to 3.9</td>
<td>3.5 to 4.4</td>
<td>3.7 to 4.6</td>
<td>2.5 to 2.8</td>
</tr>
<tr>
<td>November projections</td>
<td>3.0 to 3.6</td>
<td>3.6 to 4.5</td>
<td>3.5 to 4.6</td>
<td>2.5 to 2.8</td>
</tr>
<tr>
<td>Range</td>
<td>3.2 to 4.2</td>
<td>3.4 to 4.5</td>
<td>3.0 to 5.0</td>
<td>2.4 to 3.0</td>
</tr>
<tr>
<td>November projections</td>
<td>2.5 to 4.0</td>
<td>2.6 to 4.7</td>
<td>3.0 to 5.0</td>
<td>2.4 to 3.0</td>
</tr>
<tr>
<td>Memo: Tealbook</td>
<td>3.8</td>
<td>4.4</td>
<td>4.6</td>
<td>3.0</td>
</tr>
<tr>
<td>November Tealbook</td>
<td>3.6</td>
<td>4.7</td>
<td>4.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>

| **Unemployment rate**  |            |            |            |            |
| Central Tendency       | 8.8 to 9.0 | 7.6 to 8.1 | 6.8 to 7.2 | 5.0 to 6.0 |
| November projections   | 8.9 to 9.1 | 7.7 to 8.2 | 6.9 to 7.4 | 5.0 to 6.0 |
| Range                  | 8.4 to 9.0 | 7.2 to 8.4 | 6.0 to 7.9 | 5.0 to 6.2 |
| November projections   | 8.2 to 9.3 | 7.0 to 8.7 | 5.9 to 7.9 | 5.0 to 6.3 |
| Memo: Tealbook         | 8.9        | 7.8        | 7.0        | 5.2        |
| November Tealbook      | 9.0        | 7.9        | 7.1        | 5.2        |

| **PCE inflation**      |            |            |            |            |
| Central Tendency       | 1.3 to 1.7 | 1.0 to 1.9 | 1.2 to 2.0 | 1.6 to 2.0 |
| November projections   | 1.1 to 1.7 | 1.1 to 1.8 | 1.2 to 2.0 | 1.6 to 2.0 |
| Range                  | 1.0 to 2.0 | 0.7 to 2.2 | 0.6 to 2.0 | 1.5 to 2.0 |
| November projections   | 0.9 to 2.2 | 0.6 to 2.2 | 0.4 to 2.0 | 1.5 to 2.0 |
| Memo: Tealbook         | 1.3        | 1.0        | 1.2        | 2.0        |
| November Tealbook      | 1.1        | 1.1        | 1.2        | 2.0        |

| **Core PCE inflation** |            |            |            |            |
| Central Tendency       | 1.0 to 1.3 | 1.0 to 1.5 | 1.2 to 2.0 |            |
| November projections   | 0.9 to 1.6 | 1.0 to 1.6 | 1.1 to 2.0 |            |
| Range                  | 0.7 to 1.8 | 0.6 to 2.0 | 0.6 to 2.0 |            |
| November projections   | 0.7 to 2.0 | 0.6 to 2.0 | 0.5 to 2.0 |            |
| Memo: Tealbook         | 1.0        | 1.0        | 1.2        |            |
| November Tealbook      | 1.0        | 1.0        | 1.2        |            |

*NOTE: The changes in real GDP and inflation are measured Q4/Q4*
Exhibit 3. Risks and uncertainty in economic projections

Uncertainty about GDP growth

<table>
<thead>
<tr>
<th></th>
<th>January projections</th>
<th>November projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Similar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>

Risks to GDP growth

<table>
<thead>
<tr>
<th></th>
<th>January projections</th>
<th>November projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downside</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Balanced</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Upside</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Uncertainty about PCE inflation

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Similar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Higher</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

Risks to PCE inflation

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Downside</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Balanced</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Upside</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5: Materials used by Mr. Stockton
### The Market for New Single-Family Homes

<table>
<thead>
<tr>
<th>Sales¹</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>321</td>
<td>335</td>
<td>291</td>
<td>296</td>
</tr>
<tr>
<td>Previous</td>
<td>288</td>
<td>275</td>
<td>290</td>
<td></td>
</tr>
<tr>
<td>Percent Change</td>
<td>-14.4</td>
<td>-6.9</td>
<td>-13.1</td>
<td>1.7</td>
</tr>
<tr>
<td>-11.7</td>
<td>.0</td>
<td>17.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**By region**

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
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<tbody>
<tr>
<td>Northeast</td>
<td>31</td>
<td>33</td>
<td>31</td>
<td>23</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Midwest</td>
<td>44</td>
<td>47</td>
<td>42</td>
<td>34</td>
<td>40</td>
<td>31</td>
</tr>
<tr>
<td>South</td>
<td>173</td>
<td>180</td>
<td>159</td>
<td>165</td>
<td>161</td>
<td>165</td>
</tr>
<tr>
<td>West</td>
<td>73</td>
<td>76</td>
<td>59</td>
<td>74</td>
<td>49</td>
<td>64</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inventories</th>
<th>New homes for sale²</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>190</td>
<td>211</td>
<td>202</td>
<td>190</td>
<td>200</td>
<td>195</td>
<td>190</td>
</tr>
<tr>
<td>Months’ supply³</td>
<td>8.0</td>
<td>7.9</td>
<td>8.5</td>
<td>8.0</td>
<td>8.6</td>
<td>8.4</td>
<td>6.9</td>
</tr>
</tbody>
</table>

**Prices**

<table>
<thead>
<tr>
<th>Mean (thousands of dollars)⁴</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-to-year percent change⁵</td>
<td>.3</td>
<td>-1.9</td>
<td>-7.6</td>
<td>n.a.</td>
<td>-5.2</td>
</tr>
<tr>
<td>One-period percent change</td>
<td>.3</td>
<td>-20.9</td>
<td>-14.9</td>
<td>n.a.</td>
<td>-5.8</td>
</tr>
</tbody>
</table>

**Constant-quality price index⁶**

<table>
<thead>
<tr>
<th>Year-to-year percent change²⁵</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-period percent change</td>
<td>-4</td>
<td>-9.7</td>
<td>.7</td>
<td>3.8</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

¹. Thousands of units, s.a.a.r., except where noted. Percent change is from previous comparable period, not at an annual rate.
². Thousands of units, seasonally adjusted, end of period stock.
³. At current sales rate; expressed as the ratio of s.a. inventories to s.a. sales. Quarterly and annual values are averages of monthly values.
⁴. Quarterly and annual values of mean prices are equal to a weighted average of monthly data; the weights are based on the response rate to the survey in each month. Seasonally adjusted by FRB staff.
⁵. Year-to-year percent changes are from the year-earlier comparable period.
⁶. Based on characteristics of new homes sold in 2005. Seasonally adjusted by FRB staff.

s.a.a.r. Seasonally adjusted annual rate. s.a. Seasonally adjusted. n.a. Not available.

Source: Census Bureau.

---

**Inventories of New Homes and Months’ Supply**

- **Thousands of units**
  - Inventories of new homes (left scale)
  - Months’ supply (right scale)

- **Number of months**
  - 13
  - 12
  - 11
  - 10
  - 9
  - 8
  - 7
  - 6
  - 5
  - 4
  - 3
  - 2

Note: Months’ supply is calculated using the 3-month moving average of sales.

Source: Census Bureau.

---

**New Home Sales**

- **Millions of units**
  - 1998
  - 2000
  - 2002
  - 2004
  - 2006
  - 2008
  - 2010

Source: Census Bureau.
Appendix 6: Materials used by Mr. English
Material for
FOMC Briefing on Monetary Policy Alternatives

Bill English
January 26, 2011


DECEMBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in November confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment. Household spending is increasing at a moderate pace, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. The housing sector continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have continued to trend downward.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.
JANUARY FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in November/December confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment about a significant improvement in labor market conditions. Household spending is increasing at a moderate pace, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year in recent quarters, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. The housing sector continues to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have continued to been trending downward.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been remains disappointingly slow and there are still significant downside risks to the economic outlook.

3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities, as announced in November. Moreover, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of $800 billion—$200 billion more than announced in November—by purchasing longer-term Treasury securities at a pace of about $75 billion per month through the third quarter of 2011. In addition, the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period at least through mid-2012.

5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.
JANUARY FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in November or December confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment about a significant improvement in labor market conditions. Growth in household spending is increasing at a moderate pace picked up late last year, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be is still weak. Employers remain reluctant to add to payrolls. Although commodity prices have risen, longer-term inflation expectations have remained stable, but and measures of underlying inflation have been trending downward.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in the context of price stability, progress toward its objectives has been disappointingly slow.

3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee will is maintaining its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee and intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month [ which, given the quantity of purchases thus far, implies a pace of about $80 billion per month]. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability. The Committee will continued its practice of regularly reviewing the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information, and will it remains prepared to adjust the program as needed to best foster maximum employment and price stability.]

4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.
1. Information received since the Federal Open Market Committee met in November/December confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment about a significant improvement in labor market conditions. Growth in household spending is increasing at a moderate pace has picked up but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak and business investment is rising. However, employers remain reluctant to add to payrolls and the housing sector continues to be depressed. Although commodity prices have risen, longer-term inflation expectations have remained stable, but and measures of underlying inflation have been trending downward.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, Progress toward the Committee’s objectives has been disappointingly slow, but there are some indications that the economic recovery is strengthening.

3. To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities, as announced in November. However, in light of incoming information, the Committee now intends to increase its holdings of securities by a total of $400 billion—$200 billion less than announced in November—by purchasing longer-term Treasury securities at a pace of about $40 billion per month through the second quarter of 2011. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

4. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

5. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels of 2 percent or a bit less, which the Committee judges to be consistent with its mandate.
1. Information received since the Federal Open Market Committee met in November December confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring down unemployment. Growth in household spending is increasing at a moderate pace has picked up but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. The housing sector continues to be depressed, and business investment is rising. Measures of underlying inflation have trended lower in recent quarters and longer-term inflation expectations have remained stable, but measures of underlying inflation have continued to trend downward, commodity prices have risen noticeably.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

2. To promote a stronger pace of support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and anticipates that economic conditions are likely to warrant low levels for the federal funds rate for some time. However, the Committee judges that a further expansion of its securities holdings is not necessary to support a gradual return to higher levels of resource utilization in a context of price stability. Accordingly, the Committee decided today to continue expanding its holdings of securities as announced in November. For the time being, the Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about $75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

3. The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate promote maximum employment and price stability.
January 2011 FOMC Directive — Alternative A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to execute purchases of longer-term Treasury securities in order to increase the total face value of domestic securities held in the System Open Market Account to approximately $2.6 trillion by the end of June 2011. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System’s balance sheet that could affect the attainment over time of the Committee’s objectives of maximum employment and price stability.
January 2011 FOMC Directive — Alternative B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to execute purchases of longer-term Treasury securities in order to increase the total face value of domestic securities held in the System Open Market Account to approximately $2.6 trillion by the end of June 2011. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System’s balance sheet that could affect the attainment over time of the Committee’s objectives of maximum employment and price stability.
January 2011 FOMC Directive — Alternative C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to execute purchases of longer-term Treasury securities in order to increase the total face value of domestic securities held in the System Open Market Account to approximately $2.6 $2.4 trillion by the end of June 2011. The Committee also directs the Desk to reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System’s balance sheet that could affect the attainment over time of the Committee’s objectives of maximum employment and price stability.
January 2011 FOMC Directive — Alternative D

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to execute purchases of longer-term Treasury securities in order to increase maintain the total face value of domestic securities held in the System Open Market Account to at approximately $2.6 $2.2 trillion by the end of June 2011. The Committee also directs the Desk to by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System’s balance sheet that could affect the attainment over time of the Committee’s objectives of maximum employment and price stability.